

Testimony

of Drew Greenblatt

Marlin Steel Wire Products, LLC

on behalf of the National Association of Manufacturers

before the Committee on Small Business, United States House of
Representatives

on the Paperwork Reduction Act

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COMMENTS OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

**BEFORE THE
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES**

FEBRUARY 28, 2008

Chairwoman Velázquez, Ranking Member Chabot and members of the Committee on Small Business, thank you for the opportunity to testify today on behalf of the National Association of Manufacturers (NAM) about the Paperwork Reduction Act and the work of this committee to improve it for small businesses.

The NAM is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Three-quarters of the NAM's membership are small and medium manufacturers. Headquartered in Washington, D.C., the NAM has 10 additional offices across the country. We represent the 14 million men and women who make things in America.

My name is Drew Greenblatt and I am the President and Owner of Marlin Steel Wire Products, LLC. We make steel wire baskets and wire hooks. We used to make wire bagel baskets but international competition forced us to change our business model. Marlin Steel Wire now makes custom-built wire products for materials handling, automotive and aerospace manufacturing. We employ 27 people in Baltimore, MD. We have grown 33% in the last two years and tripled in the last ten years. We are adding people. We want to keep adding people, not adding paperwork.

The NAM's mission is to enhance the competitiveness of manufacturers by shaping a legislative and regulatory environment conducive to U.S. economic growth, and to increase understanding among policymakers, the media and the general public about the vital role of manufacturing to America's economic future and living standards.

The manufacturing community — especially small manufacturers like me — welcomes today's hearing. My business complies with paperwork and regulatory requirements from the IRS, EPA, OSHA, other parts of the Department of Labor, the Department of Commerce, the State Department, and other federal, state and local agencies. I compiled all the forms my business fills out in a single year and when piled on top of each other, they are more than 6 feet tall. Take a look at this photo of my plant manager, Simon Matthews and our Production Specialist, Nan Brand next to last year's paperwork. I have often heard that the Code of Federal Regulations when piled up extends to 19 feet. Please remember that each one of those regulations has potentially tens of pages of paperwork and recordkeeping requirements associated with them, for every company like mine. That's why it is no surprise to me that the federal government reported that it imposed 9.2 billion hours of paperwork on the public in 2007.

Although paperwork is a distinct kind of regulatory compliance, it can not be totally separated from it. All paperwork requirements come from a regulation which comes from a statute. So estimates of paperwork burden and costs are generally included in total regulatory costs. In the Crain report produced by SBA's Office of Advocacy, the costs of tax compliance are counted by paperwork burden and costs to hire outside assistance to fill out the paperwork, rather than by any inefficiencies of the

current tax code. So I will refer to regulatory and paperwork costs interchangeably throughout my testimony.

As the final 2004 OMB Report to Congress on the Costs and Benefits of Federal Regulations notes, federal regulations hit the manufacturing sector especially hard. Because manufacturing is such a dynamic process, involving the transformation of raw materials into finished products, it creates more environmental and safety issues than other businesses. Thus, environmental and workplace health-and-safety regulations and accompanying paperwork have a disparately large impact on manufacturers.

Another report entitled The Impact of Regulatory Costs on Small Firms, by Mark Crain and Thomas Hopkins, issued in 2001 and updated by Dr. Crain in 2005 for the Office of Advocacy of the Small Business Administration, makes the same point. The burden of regulation falls disproportionately on the manufacturing sector. In this most recent report, Dr. Crain found that the manufacturing sector shouldered \$162 billion of the \$648 billion onus of environmental, economic, workplace and tax-compliance regulation in the year 2004.

Overall, Crain found that the per-employee regulatory costs of businesses with fewer than 20 employees were \$7,647. That is 40% more than the cost per worker of \$5,282 for firms with more than 500 employees.

In manufacturing, this disparity was even wider. The cost per employee for small firms (meaning fewer than 20 employees) was \$21,919 or 118% higher than the \$10,042 cost per employee for medium-sized firms (defined as 20–499 employees). And it was 150% higher than the \$8,748 cost per employee for large firms (defined as 500 or more employees).

In December 2003, the NAM released a report, “How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness,” which has received considerable attention from media, business and policy experts. This report, which is available at www.nam.org/costs, examined structural costs borne by manufacturers in the United States compared to our nine largest trading partners: Canada, Mexico, Japan, China, Germany, the United Kingdom, South Korea, Taiwan and France. The principal finding was that structural costs—those imposed domestically “by omission or commission of federal, state and local governments”—were 22.4% higher in the U.S. than for any foreign competitor. NAM subsequently updated that study and found them to be 31.7% higher in 2006.

The structural costs included regulatory and paperwork compliance, along with excessive corporate taxation, the escalating costs of health and pension benefits, the escalating costs of litigation and rising energy costs.

As a result, we welcome the continued leadership of Chairwoman Velázquez in this Congress to address the problems of small business. Improving the Paperwork Reduction Act (PRA) is a necessary and noble enterprise. I would simply caution that as you embark on this mission to fix the PRA that you be wary of those that would attempt to weaken it. It would do no small business any good to end up with a PRA bill that weakened the Office of Information & Regulatory Affairs (OIRA) or in any way interfered with its other critical responsibilities. This committee has long recognized the disproportionate burden of regulatory and paperwork costs on small businesses and especially small manufacturers. We are anxious to assist you in this effort.

The Paperwork Reduction Act while well intentioned has produced disappointing results. Since its passage in 1980 paperwork burden has increased by more than 400%. They are even more disappointing since the improvements to the PRA in 1995, which passed the U.S. House of Representatives by a vote of 423-0, did not accomplish any of its percentage reduction targets for decreased burden imposed on the public. If the PRA of 1995 had been successful, then paperwork burden hours would have stood at 4.6 billion hours in 2001 instead of at 7.5 billion hours and we wouldn't be surpassing 9 billion hours today.

I understand that these government-wide totals are imperfect. I know that many increases are due to adjustments to calculations or the number of respondents for a form increasing. But even if you strip away the largest single contributor, the IRS with about 78% of the total government burden, you still find significant increases over the last several years due to program changes in the hundreds of millions of hours. Agencies will likely complain that it is the fault of Congress because you keep passing new laws. But the agencies didn't seem to take the PRA of 1995 seriously, so I'm not sure why they assume that you want y them to only take seriously the laws that increase the burden on the public.

My bottom line is that the federal government can do better. No one can say with a straight face that we've eliminated as much of the unnecessary burden that we can. No one can say that there is no "fat" in the system. As a businessman who is constantly worried about my costs and how I can reduce them, I know that there is always room for improvement. It is what keeps the American economy moving.

Unfortunately the last time Congress and this Committee did try to do something about paperwork burden, someone did say we've done all we can with a straight face. Thanks to this Committee, the Small Business Paperwork Relief Act of 2002 became law. One of its first requirements was the establishment of an interagency task force to reduce the burden of paperwork on small business. Its first report to Congress said,

The task force assumed that Federal agencies collect the minimum information necessary to fulfill statutory or programmatic responsibilities consistent with the [PRA]. The recommendations concentrate on ways to minimize the burden associated with existing requirements, rather than eliminate requirements.

Efforts to improve the PRA must start with a better premise. I would suggest the central idea behind any improvements that you make is that the federal government is a vast and disconnected bureaucracy. One agency can never truly know what the other agencies of government are doing and in fact has trouble knowing what all of its own offices are doing. Finding ways to identify true duplication of information collection requirements within agencies and across agencies is one place to start. But OIRA currently has no way to validate an agency certification of non-duplication. They just take agencies at their word. And the internal check on the program offices of agencies, the CIO shops, also have no way to verify that certification. They just take the program office's word for it.

All of this, coupled with the small staff and resources of OIRA, has turned a bold sunset and review of paperwork requirements into a pointless exercise. As the government has demanded more of the office that reviews hundreds of regulations and

thousands of paperwork collections a year, the government has given it fewer resources. As the size and scope of government has increased, OIRA has shrunk. It would be a different story if we were able to achieve significant burden reductions while shrinking OIRA. That would be a great story about the efficiency of government. Instead, as OIRA's staff shrunk from the 90 to 50 employees, the staff dedicated to writing, administering and enforcing regulations has increased from 146,000 in 1980 to 242,000 today. And as OIRA's budget shrunk by \$7 million in inflation-adjusted terms, the agencies' budgets have increased from \$7.6 billion to over \$40 billion. Obviously, OIRA needs additional resources to accomplish its mission and reduce the paperwork burden on small business.

Every hour that I spend on this paperwork is an hour of lost productivity. And lost productivity means I am unable to hire that next employee, make capital equipment purchases, or spend time marketing and growing my business. In a globally competitive marketplace where seconds count and every penny of increased cost per unit could price my products out of existence, the federal government must seriously consider every hour of burden it imposes.

Let me give you an idea what I would do with the freed-up time. We sell a great deal of our product to foreign companies. Toyota is my second-biggest client. Today we are running jobs through our plant for English drug maker, Glaxo Smith Klein, and last month for Unilever, the Dutch English consumer products manufacturer. In the last six months our company exported wire products to the UK, Mexico, Belgium, Canada, Japan and my all-time favorite, TAIWAN. How neat is that? Marlin Steel exports wire

baskets to Taiwan. I wonder what they think when they open the box in Taiwan and it says, "Made in the USA."

We are doing many things right. We design products with the most sophisticated computer-aided-design, like this basket for Hubert, a company in Congressman Chabot's district in Harrison. We make high-quality products that don't get returned.. But we also have to do some less-productive work. First, we farm out a lot of the paperwork we must file. We are so afraid that we will make a mistake and the liabilities are so huge, that we pay someone else to do the paperwork. We have to find a suitable reputable vendor and then we have to change our systems to conform to their new system, all so we can meet government dictates. Millions of small businesses like mine pay such fees to outsiders, fees that our competition in China and India do not. In Marlin's case, our fees to outside vendors so we can manage the rules of our 401k pension plan and manage the rules of payroll deductions require us to use two outside vendors. We pay them so much a year that I cannot purchase another 75,000 watt welder or hire a \$15 per hour person to work on the production floor. We would be more competitive if we hired that person. And he or she would have a job. A job here in America. Thus paperwork actually reduces employment because we are diverting cash from hiring more workers to paying vendors to shuffle government paper.

In addition, we have to hire talented people internally that can fill out the documents. These coworkers are set on tasks to research data for the government reports. There are meetings to discuss whether a poorly-written government phrase applies to us. The team member who has to focus on this distraction is unfortunately not

being utilized to strategize on “how to improve our product?” or “How to ship better quality? How to ship faster?”

We want our small businesses vibrant since we hire people and take the risks to grow. Government’s goal should be take off the shackles of the small business hiring machine.

Again, Madam Chairwoman, thank you for this opportunity to testify. I would be happy to respond to any questions.